



**Committee on Ways and Means
Hearing on “Tax Reform and the U.S. Manufacturing Sector”
July 19, 2012
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3M Company (“3M”) appreciates the opportunity to testify before the Committee on Ways and Means on “Tax Reform and the U.S. Manufacturing Sector.”

3M is a large U.S.-based employer and manufacturer established over a century ago in Minnesota. Today, 3M is one of the largest and most diversified manufacturing companies in the world. We are a global company conducting the majority of our manufacturing and research activities in the United States. 3M thanks the Committee for its leadership on the critical issue of tax reform and for considering our perspective in this important debate.

Our comments are written to share the practical impact of corporate tax reform on 3M. 3M respectfully urges the Committee to continue making the global competitiveness of American businesses and workers a key objective of reform. From 3M’s perspective, this means a significant reduction to the corporate tax rate and the adoption of a territorial system. 3M generally supports the approach outlined in the Ways and Means October 2011 discussion draft on a Participation Exemption (Territorial) System. We recognize that to reform the system in this way, all current incentives, credits and deductions must be reviewed.

3M looks forward to working with the Committee on achieving meaningful and comprehensive tax reform.

Background on 3M

3M, formerly known as Minnesota Mining and Manufacturing, is an American company currently headquartered in St Paul, Minnesota. The company, created in 1902 by a small group of entrepreneurs, initially began as a small sandpaper product manufacturer. Today, 3M is one of the largest and most diversified manufacturing companies in the world. 3M is home to such well-known brands as Scotch, Scotch-Brite, Post-it®, Nexcare®, Filtrete®, Command®, and Thinsulate® and is composed of six business sectors: Consumer and Office; Display and Graphics; Electro and Communications; Health Care; Industrial and Transportation; and Safety, Security and Protection Services.

Ahead of their peers, 3M’s founders insisted on a robust investment in R&D. Looking back, it is this early and consistent commitment to R&D that has been the main component of 3M’s success. Today, 3M maintains 40 different technology platforms. These diverse platforms allow 3M scientists to share and combine technologies from one business to another, creating unique, innovative solutions for its customers. The financial commitment to R&D equated to \$1.6 billion of R&D spending in 2011 and over \$7 billion during the past five years, and produced high quality jobs for 3900 researchers in the United States (and 7000 total worldwide).

The results are equally impressive with 571 U.S. patents awarded in 2011 alone, and over 40,000 global patents and patent applications. Over 32% of 2011 sales came from products developed in the last 5 years.

3M's worldwide sales in 2011 were nearly \$30 billion. 3M is one of the 30 companies on the Dow Jones Average and is a component of the Standard & Poor's 500 Index. Owned by millions of shareholders directly and indirectly through mutual funds, 3M has consistently delivered positive results to its owners. It has paid dividends to its shareholders every quarter since 1916. 3M paid dividends of \$1.6 billion in 2011 and a total of \$8.2 billion over the past five years. Most remarkably, for the last 50 consecutive years, annual dividends have consistently increased.

This success is attributable to the people of 3M. Generations of imaginative and industrious employees in all of its business sectors throughout the world have built 3M into a successful global company.

3M: Competing in A Highly Competitive Global Economy

3M is a U.S. company that manufactures and sells its products throughout the world. Headquartered in St. Paul, Minnesota, 3M has operations in 28 U.S. states, where approximately half of 3M's worldwide manufacturing operations are located. Internationally, 3M has historically had a large manufacturing presence in Western Europe, Canada and Japan. 3M employs approximately 33,000 in the United States. In addition, 3M conducts over 60% of its worldwide R&D activities in the United States. The U.S. market currently accounts for approximately one-third of 3M's global business.

While its U.S. presence is strong, 3M is increasingly a global company. 3M operates in more than 70 countries and sells products into more than 200 countries. In 2011, approximately two-thirds of 3M's sales were outside the United States, a percentage that is projected to rise in future years. In the current global economy, where international markets are growing faster than U.S. markets, being able to compete successfully in the global marketplace is critical to 3M.

Global market competition has made "localization" critically important for the company's future success. If 3M is going to successfully compete against its foreign competitors, it must invest in new facilities in those foreign markets to be closer to its non-U.S. customers. 3M must hire international employees with an in-depth understanding of their markets. 3M's success has depended on our ability to tap into the talent of a richly diverse global employee base to share ideas and innovate. Local knowledge and execution, supported by 3M technologies, products, and brands, is an overarching strength and competitive advantage. It enables 3M to provide international customers with leading-edge products, strong marketing support and responsive service, thereby achieving borderless customer success.

This business-driven need for further localization, as well as the need to simplify 3M's historically complex supply chains, has led 3M to adopt a regional sourcing initiative. 3M pursues more customer-focused supply chains with an increased localization target – meaning that more of our products sold in a region will be produced in the same region as that of the customer. This shift to greater localization is not tax-driven, but rather results from competitive pressures to better serve the needs of our global customers.

Reforming the Current U.S. Business Tax System

Tax reform is essential to ensure long-term competitiveness of American businesses and workers. As the Committee knows, the US corporate tax rate is the highest tax rate of any major country. In some cases, the high US tax rate is mitigated by tax credits and deductions. These credits and deductions, however, often fail to adequately encourage the behavior they were designed to incentivize and often create competitive imbalances between US companies.

In addition, the Internal Revenue Code has not kept up with the rapidly changing international business environment. Virtually every developed country has responded to these changes by adopting tax systems that provide their domestic corporations the tools to compete in the global marketplace. Also, part of this new global reality is that nearly 50% of the world's largest public companies - and many of our competitors - are now based outside of U.S. and Western Europe. They can start with a competitive advantage in the marketplace because of the lower tax rates they enjoy.

3M submits that the U.S. could take a few key steps to address these competitive imbalances while simultaneously creating greater simplicity and predictability for its domestic corporations.

Significantly Lower the Corporate Income Tax Rate. First and foremost, we recommend the corporate tax rate be reduced. We support the Chairman's proposal to reduce the rate to 25%; a rate which is more in line with other developed countries that view a lower corporate tax rate as a competitive advantage. From 3M's perspective, the current high corporate tax rate has two adverse effects on domestic investment: it reduces the after-tax return on domestic investments and creates significant inefficiencies in the deployment of the Company's capital and the management of its balance sheet.

Since 3M maintains the majority of its manufacturing and R&D activities in the United States, our effective tax rate is one of the highest among our competitors. For 2012, 3M is anticipating a worldwide effective tax rate of 29.5%. In 2011, 3M's worldwide tax expense was over \$1.6 billion. In an increasingly global marketplace, 3M's high effective tax rate is a competitive disadvantage.

In addition, the high U.S. tax rate imposes an undue cost barrier to repatriating foreign earnings under the current international tax system. American businesses should be encouraged to successfully compete in foreign markets and repatriate foreign earnings back to the United States. A significantly reduced corporate tax rate would eliminate significant inefficiencies in the deployment of the Company's capital and the management of its balance sheet. We recognize that a large reduction in the corporate tax rate would require substantial offsets from existing deductions and credits. For example, 3M utilizes the Section 199 manufacturer's deduction, accelerated and bonus depreciation, and the R&D tax credit.

The manufacturer's deduction provides a significant benefit to our company since 3M has a majority of its manufacturing base in the US. However, lowering the tax rate to 25% would offset the benefit of this deduction and would also eliminate the complex and time consuming record keeping requirements.

3M would also support the repeal of accelerated and bonus depreciation to partially pay for a significantly lower tax rate. While the depreciation provisions provide a significant benefit to the company, these rules merely change the timing of deductions and result in an upfront cash

flow benefit. Importantly, they do not impact the tax rate reported by the Company in its financial statements. Timing benefits like accelerated and bonus depreciation do not impact earnings per share.

In addition, 3M would also forego the current R&D credit for a significantly lower rate. As one of the most innovative companies in the world, 3M believes that intellectual property development must remain a cornerstone of American business for their success. 3M spends over \$1.6 billion a year on R&D. However, today's R&D credit provides insufficient incentives to encourage R&D investment because it is based on incremental spending on a limited portion of R&D expenditures. And, its temporary nature limits its effectiveness.

If Congress is unable to secure a significant rate reduction or wishes to continue to incentivize R&D here in the U.S. in a reform package, there are numerous ways to substantially improve the incentives for research, development and ownership of intellectual property. For example, a so-called "patent box" could provide a low tax rate on income generated from intellectual property developed and owned in the US. This would not only encourage investment in research and development, but it would also encourage its retention in the U.S. and address concerns regarding the migration of IP offshore. Other countries, such as the Netherlands, Spain and Belgium, have adopted provisions that permit a deduction or exclusion for a portion of royalties received for the use of IP created by the licensor.

Territorial System. The worldwide base of the current international tax system adversely impacts the competitiveness of American businesses which operate overseas for business reasons, like 3M, relative to competitors that are based in jurisdictions that exempt foreign income. It is important for 3M to be able to manage debt and reinvest capital on a regional basis. A territorial system would allow the movement of capital across country borders without triggering a US tax consequence, giving American companies the ability to deploy capital efficiently in competing for growth opportunities abroad.

3M applauds the Chairman's inclusion of a territoriality system in his proposal. We agree with a 95% exemption system rather than alternative systems that would create unnecessary complexity. This approach accomplishes the policy objectives of exempting foreign earnings and limiting deductibility of related U.S. based expenses in a far less complicated manner than other proposals. A territorial system would bring the US into line with most developed countries, including the UK, Canada, Germany and Japan. In addition, such a change would fully or partially repeal of many international tax rules, which are among the most complex and controversial rules in the Code. Replacing those rules with a territorial system would greatly enhance simplification and transparency.

We agree with the Committee that anti- abuse rules are necessary to prevent the erosion of the U.S. tax base. Regarding transition rules for pre-enactment foreign earnings, 3M, like many companies, has substantial foreign earnings permanently reinvested in active businesses outside of the U.S. The up-front tax impact on accumulated earnings that can never be repatriated to the U.S. need to be considered, along with the complexity involved in determining the accumulated undistributed earnings for companies that date back over 50 years. In addition, 3M suggests this tax should not be imposed on accumulated earnings that are invested in assets used in active businesses since these earnings will never be repatriated.

Summary of 3M Tax Reform Recommendations

We thank the Committee for the opportunity to share our perspective as an American employer interested in preserving and enhancing the global competitiveness of American businesses and workers.

As a U.S. based multinational company that is contending with many foreign-based competitors every day around the globe, it is critical to reduce the U.S. corporate tax rate and adopt a territorial system to help make us more competitive.

We sincerely appreciate the significant work you and the Committee have and are doing to craft a U.S. tax code that levels the playing field for U.S. based companies and encourages more investment, manufacturing and jobs in the U.S.

3M stands prepared to work with you in any way we can to support you on this critical public policy matter.